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HEFA
MONITOR

WINTER 1991 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 4, NO. 1

Harvard's Refunding Takes Advantage of Investors' Flight to Quality

In one of the fastest-paced financings to date, Harvard University sold a $153 million advance refunding on February 6, 1991. Harvard had long held certain targets for its refundings, and once rates dropped and the University's interest rate target appeared attainable, the transaction was completed within a week.

The net present value savings is anticipated to be nearly $15 million over the life of the bond issue. The serial bonds were priced to yield from 4.85% in 1992 to 6.5% in 2005. Three term bonds maturing in 2007, 2011, and 2015 were priced to yield 6.55%, 6.62% and 6.63% respectively. The refunding had a true interest cost of 6.60% and will result in savings in debt service payments of approximately $1.9 million per year.

The recession has led investors to seek out high-grade securities. This so-called "flight to quality" was a great opportunity for a high-quality credit, especially in the higher education market. "There was tremendous interest in Harvard paper due to their triple-A rating," commented the Authority's Executive Director Ned Murphy. "Despite the fast pace, the transaction went smoothly and Harvard was able to meet its target." ■

(L-r): Martin Ted Mayden, Managing Director of BT Securities, Inc.; Phyllis E. Frothingham, Debt Management, and E. Lyndon Tefft, Director, Office of Financial Systems, Harvard University; Ned Murphy, Executive Director of HEFA; and Judith B. Warren, Director of Finance and Accounting, Harvard University, at the closing meeting of Harvard's $153 million refunding.

Moody's Completes Credit Review Of Massachusetts Hospital Industry

The Public Finance Department of Moody's Investors Service periodically prepares a credit review of hospitals in a state or geographic region. The credit report covers each of the hospitals with outstanding ratings, as well as the area's regulatory, political, and economic environment. Last autumn, as Moody's planned its review of the Massachusetts industry, HEFA Executive Director Ned Murphy hosted a series of briefings for the Moody's analysts in an effort to provide them with a balanced view of the system.

Presentations were made by representatives from the HEFA board, Senate and House Ways and Means Committees, Massachusetts Hospital Association, Blue Cross/Blue Shield, Coopers and Lybrand, Harvard School of Public Health, certain Boston teaching hospitals, and state regulators and policymakers. The variety of viewpoints from insurers, regulators, legislators, academia and the healthcare industry enabled Moody's to better comprehend the system.

Moody's maintains 72 hospital debt ratings in Massachusetts, including letter-of-credit-backed bonds, insured bonds, bonds secured by federal guarantees and bonds secured solely by hospital revenues. Their report on Massachusetts, published in February,

continued on page 5

Nichols College Expands

Nichols College commenced a capital expansion and improvement program in January when it issued through HEFA $9.4 million in revenue bonds. Nichols, a business administration and liberal arts college located in the town of Dudley, met favorable response from investors despite unsettled market conditions brought on by the recession and the war in the Gulf. The bond issue included a small serial bond maturing in 1991 and three term bonds. The 2011, 2016 and 2020 term bonds were priced to yield 8.5%, 8.6% and 8.5%, respectively.

Bond proceeds will be used for the construction of two facilities — Davis Hall and Shamie Hall. Davis Hall will contain 12 classrooms and lecture halls, a seminar room, an audio-visual studio, a meeting room and lounge and six faculty offices. Shamie Residence Hall will be a three-story residence hall with a capacity of 246 students living in 126 rooms. ■

Last-minute details for the Nichols College closing are attended to by (l-r): Lorrie DuPont, Vice President, and Keith J. Morgan, Assistant Vice President, of John Nuveen & Co. Inc.; Lowell C. Smith, President of Nichols College; Martin L. Rainford, General Counsel of HEFA; and Kenneth E. Grant, Business Officer, Nichols College.

Jordan Hospital Leases Equipment

Jordan Hospital, a 150-bed community hospital located in Plymouth, recently chose to use the Authority's new capital lease product to finance a $2.3 million Meditech computer system. The five-year obligation, which was offered at a coupon rate of 7.65%, represents a general obligation of the Hospital and is secured by a lien on the equipment. In Mass. HEFA's standard lease, the nominal owner is the investor, who leases the equipment through the Authority to the hospital. At the end of the payment period, ownership is transferred to the Hospital for one dollar. The advantages of the lease program are its low cost of issuance — usually within 2% of total issue size, as in Jordan's case — and the relatively simple documentation. Usually a transaction can be executed within two months. A further advantage is that many leases can be closed without the need for credit enhancement. As many hospital administrators are now becoming aware, letters of credit are becoming more expensive, less advantageous and more difficult to obtain.

Asher Kramer, Jordan's Chief Financial Officer, commented: "We were pleased with how quickly the Authority met our needs with this lease, and the fact that it was less complicated than other options we have used through HEFA." ■

Capital Asset Program Loans: September 1990 through February 1991

Institution	Location	Amount	Closing Date	Term
G-2 CLOSING				
Brockton Hospital	Brockton	$4,500,000	11/15/90	20 years
E CLOSINGS				
University of Massachusetts	Amherst	$ 1,100,000	11/16/90	5 years
University of Massachusetts Medical Center	Worcester	11,000,000	12/27/90	8 years
Leonard Morse Hospital	Natick	6,000,000	01/29/91	9 years
Melrose-Wakefield Hospital	Melrose	3,000,000	01/08/91	12 years
Total		**$21,100,000**		
D CLOSINGS				
Boston Symphony Orchestra	Boston	$2,500,000	11/20/90	7 years
Shaunessy-Kaplan Rehabilitation Hospital	Salem	4,000,000	02/08/91	3 years
Visiting Nurses Association	Salem	500,000	02/18/91	3 years
Lahey Clinic	Burlington	3,000,000	02/25/91	5 years
Total		**$10,000,000**		

Fixed versus Variable

HEFA has received calls from clients with outstanding variable-rate demand bonds ("VRDB") requesting our updated advice on whether to remain in a variable-rate mode or to convert to a fixed rate structure. The motivation for this new round of discussion arises from a variety of recent occurrences within the credit markets. First, many borrowers are facing increasing difficulties with liquidity and credit support, which are essential components of most variable-rate structures. As the overall quality of bank letters of credit deteriorated in recent years, certain bank names have faced increasing resistance from investors, and many borrowers are being forced to replace their letter of credit ("LOC") or obtain a confirming LOC from a stronger institution. In addition, recent regulatory changes in the banking industry have prompted many banks to charge considerably more to reissue their LOCs or to curtail their reissuance entirely. As a result of these credit-support problems, many HEFA clients have begun considering ways to avoid LOCs altogether, even if it means refinancing.

Second, long-term interest rates have recently dropped to a level attractive enough for VRDB clients, who tend to be rate-sensitive, to consider converting from variable rate to fixed. For example if an "A"-rated institution were to issue bonds in the current market, the long rates would be approximately 7.25% — the lowest in nearly four years. For many institutions who throughout 1989 and 1990 had paid in the 6.0% range for a weekly VRDB in addition to related fees for operating the program, this all-in rate would be tempting.

Weighing against the decision to convert from a variable rate would be the costs of underwriting, as well as the effort and time required to produce legal and disclosure documents. In most cases a rating would have to be obtained. Also, for credits rated in the "BBB" range, or unrated, today's recessionary market has made access to fixed-rate funds more difficult and expensive. VRDB rates themselves have come down recently in response to a more lenient policy by the Federal Reserve. Since the beginning of the year, VRDB rates have dropped to the low 4.0% range, and a few issues have been in the high 3% range. Even if LOC fees were to increase to 1.5% or 2.0%, the all-in borrowing rate would still remain quite low.

It is important to note that ever since borrowers have had the option, beginning in the mid-1980s, variable rates have outperformed fixed rates, notwithstanding the periodic "spikes" in VRDB rates. HEFA suggests that VRDB clients whose offerings bear LOCs from highly-rated banks consider the "scarcity value" of such a security. The overall diminishing of credit quality in the market should ultimately lead to lower rates for those remaining securities bearing premium names. An alternative for borrowers not wishing to disturb the existing LOC would be a swap, which is an off-balance-sheet method of hedging variable-rate payments.

The VRDB product was successfully marketed in the mid-1980s initially to tax-exempt money-market funds, who seek these daily and weekly put-option securities to meet regulatory requirements for liquidity in their portfolios. Recently, treasurers of large public corporations have begun crossing over to the tax-exempt market to invest when VRDB yields on a taxable-equivalent basis exceed those of comparable short-term credits. The size of the VRDB market has been estimated to be in the $25-40 billion range, depending on the definition. Currently, 12 dealers are remarketing approximately $1.2 billion in HEFA VRDBs, including $550 million in pool loans. ■

HEFA Financings: September 1990 through February 1991

INDIVIDUAL BOND ISSUES

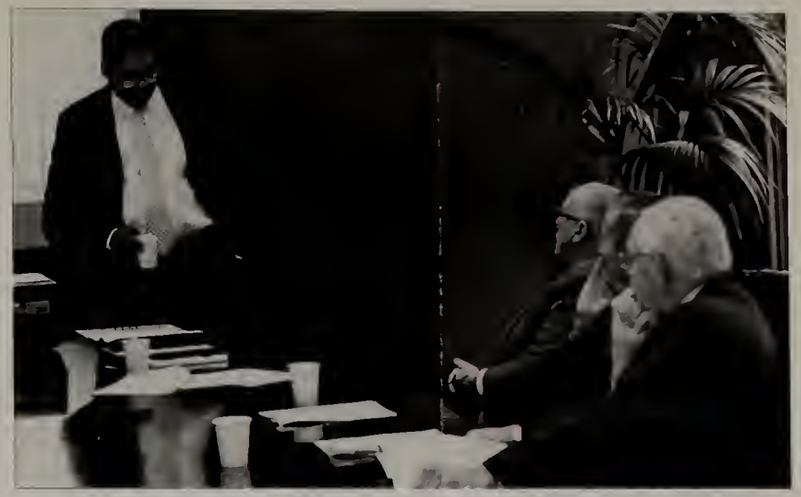
Institution	Location	Series	Amount	Sale Date	Term
Smith College	Northampton	C	$ 16,000,000	09/11/90	9 years, fixed
Fairview Extended Care Services, Inc.	Pittsfield	A	39,600,000	09/26/90	30 years, fixed
Framingham Union Hospital	Framingham	B	16,150,000	09/24/90	27 years, fixed
Stonehill College	North Easton	D	14,000,000	10/10/90	28 years, fixed
Beverly Hospital	Beverly	E	8,000,000	10/12/90	27 years, fixed
Berkshire Consolidated Realty	Pittsfield	A	10,600,000	10/30/90	Variable
Goddard Memorial Hospital	Stoughton	B	29,200,000	11/15/90	25 years, fixed
Jordan Hospital	Plymouth	1	2,535,255	01/17/91	Lease
Nichols College	Dudley	B	9,400,000	01/30/91	29 years, fixed
Harvard University	Cambridge	M	153,275,000	02/06/91	23 years, fixed
Total			**$298,760,255**		

HEFA Hosts Briefing On New HCFA Medicare Capital Regs

Institutional investors from Boston's largest mutual funds joined HEFA board members, hospital CFOs and healthcare policy managers from the Weld administration for a briefing on the new capital regulations drafted by the Health Care Finance Administration (HCFA). Robert Eaton, Associate Administrator of HCFA, described the changes proposed by HCFA as filed in the Federal Register in February.

The long-awaited proposal calls for folding capital costs into Medicare's Diagnostic Related Groups (DRG) prospective payment system. The proposed regulation, absent Congressional intervention, is due to take effect on October 1, 1991. It calls for a gradual shift over ten years from the current cost-based system to an entirely prospective approach. If adopted, this regulation should have enormous impact on hospital capital decisions now and in the years ahead.

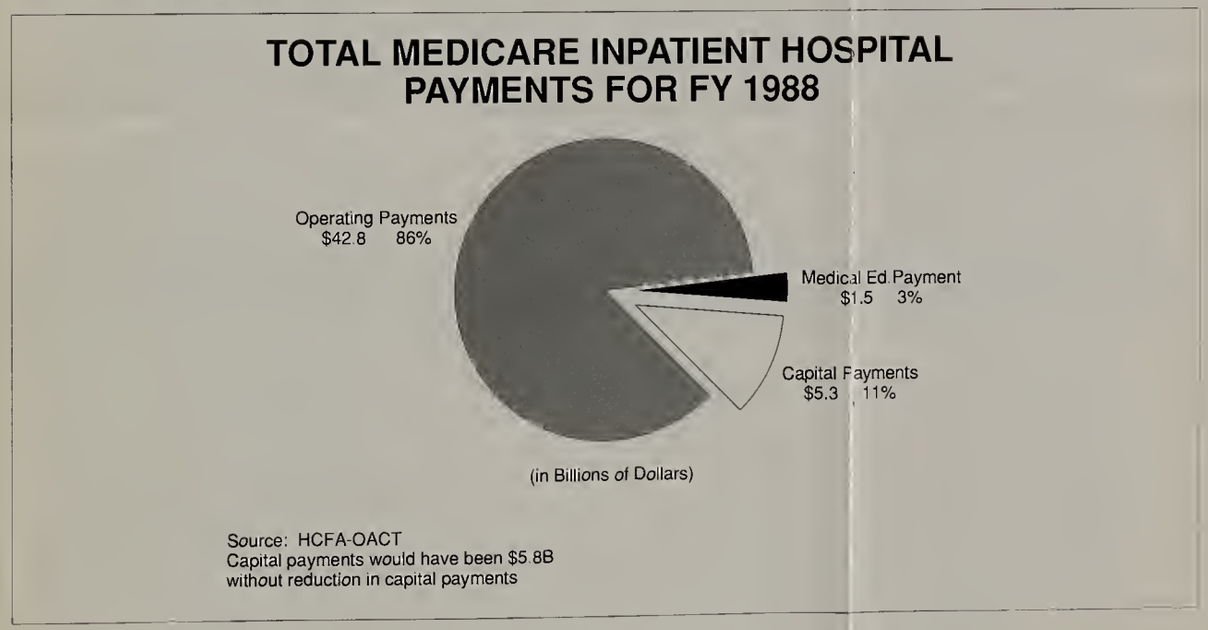
"While there was much talk of winners and losers under the proposal," commented Mr. Eaton, "the only real losers as I see it are hospitals that continue to spend at excessive rates in the future. I believe there are sufficient safeguards in the Exceptions Policy and the 'grandfather' provisions; however, we are quite interested in your input during the review period for the regulations."



Robert Eaton, Associate Administrator of Health Care Finance Administration, explains new regulations as HEFA Board Members John R. Smith, C. Vincent Vappi, and Robert E. Flynn, M.D., listen.

He added, "Comments from the financial community are particularly welcome as we refine the policy and think through the implications."

"Changes to the current system appear inevitable. We are delighted at the extent to which HCFA has reached out to the investment community for their input," commented Tom Green, Vice President of Public Finance for The First Boston Corporation, co-sponsor of the event. "It's important that we work together with Bob and the HCFA leadership to preserve the integrity of prior financial commitments as well as future access to capital," he added. ■



Moody's

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focused on 30 hospital debt ratings, backed solely by hospital revenues. Moody's lowered six hospital bond ratings and one rating was withdrawn. There were no upgradings. The report also found that:

> 'Hospitals have learned to operate more effectively under the system.'

1. While Massachusetts ratings are evenly distributed among all rating categories, as a group they are lower than the national distribution. Massachusetts' less favorable distribution can be explained in part by the character of the state's reimbursement system.

2. Fiscal years 1988 and 1989 were particularly difficult years for most Massachusetts hospitals. A tight labor market caused substantial nursing salary increases, while the reimbursement system limited hospitals' ability to increase their revenues accordingly. By 1990, the labor situation had eased, system adjustments had increased reimbursement somewhat, and hospital finances had improved at many facilities.

3. Massachusetts hospitals have historically operated under a regulated reimbursement system. In general, regulation constrains hospitals' ability to respond to their environment; in Massachusetts, regulations have limited allowable revenues under an all-payer system since 1982. Regulated environments are also subject to sudden legislative changes or retroactive adjustments, both of which have occurred in the state, with negative impacts on some facilities. In general, Moody's views regulation as a credit risk, even though it may have some benefits for the industry.

4. The hospital/medical research industry is an important one in the state. The medical schools, research universities, high technology companies and teaching hospitals combine synergistically to attract at least several hundred million dollars of biomedical research funding annually, employing thousands of people. Thus far, the major research programs and the facilities that sponsor them have not been affected severely by either the downturn in the economy or changes in grant funding. There is some concern, however, that large current capital investments in research may strain future hospital operations if Federal budget cuts and decreases in philanthropy lead to reductions in research grants and contracts.

Moody's also reported that financial performance has stabilized as hospitals adjust to Chapter 23: "...by 1990 many hospitals had improved their operating performance. The system had caught up with actual experience and included enough funds to pay higher labor costs. Further, hospitals have learned to operate more effectively under the system, and a weakening economy has reduced salary pressures in the nursing labor market. These factors have combined to improve hospital operating performance."

In November 1990, Moody's did a similar review of New York hospital debt ratings secured solely by hospital revenues. Ten of the sixteen ratings for that state were downgraded, and the state overview was extremely pessimistic primarily because it is a highly regulated state with an extremely restrictive reimbursement system.

"Investment and ratings analysts tend to view all 'regulated' states with some misgiving despite the wide variance in reimbursement policy. Many of those analysts reside in New York and tend to view Massachusetts and New York reimbursement systems as similar when in fact they are quite different," commented the Authority's Executive Director Ned Murphy. "I think the Moody's analysis, however, was right on target."

Copies of Moody's report are available by contacting Julie Fay at 617-737-8377 or by writing the Massachusetts Health and Educational Facilities Authority, 99 Summer Street, Boston, MA 02110.

"It was extremely helpful in terms of understanding the nuances of the Massachusetts system to hear directly from those currently managing the system from various and disparate points of view," stated John Goetz, Vice President of Public Finance for Moody's Investors Service. "We would not normally be exposed to that amount of detail in a conventional credit analysis. Given the complexity of the Massachusetts system, it's important to understand these nuances." ■

Distribution of Moody's Hospital Revenue Bond Ratings by Rating Category*

Rating Category	Commonwealth of Massachusetts Number	%	United States Number	%
Aa	3	10	41	6
A1	5	17	130	20
A	7	23	249	39
Baa1	5	17	98	15
Baa	8	27	96	15
Ba1 or below	2	6	31	5
Total	30	100	645	100

*Credit ratings of unenhanced bond issues only.

HEFA Forum On Higher Ed

The Authority, in conjunction with Mass Insight and the Association of Independent Colleges and Universities (AICUM) sponsored a forum for presidents, chief financial officers and senior staff of AICUM member institutions. The February 26th event was held at the Harvard Club in Boston. The forum focused on two key issues facing higher education administrators in the 1990s — the public and political environment for Massachusetts independent colleges and universities and financing strategies.

The session on public strategies was moderated by Jim King, Senior Vice President at Northeastern University. The session focused on two surveys conducted by Opinion Dynamics Corporation. The first survey, completed in the fall of 1990, focused on education issues. The second, completed in January 1991, focused on the current state of the fiscal crisis and contains many insights into the current thinking of the people of Massachusetts. Survey results indicate that:

- People recognize the importance of private colleges and universities to the Commonwealth. Fully 78% of the respondents say that these institutions improve the quality of life, while 87% think they are important to the economy.

Panelists at HEFA Higher Education Forum (l-r): Ernest T. Freeman, President and Chief Executive Officer, The Educational Resources Institute; Robert Forrester, Partner, Coopers & Lybrand; and Peter McKenzie, Financial Vice President, Boston College.

- While people see private education as better quality (72% term it excellent and good compared to 56% for UMass), they see public education as a better value for families and taxpayers by a slim margin — 42% to 38%.
- Of those polled, 72% feel that private colleges and universities should make contributions to cities and towns even if they aren't legally obligated to do so.
- By a two-to-one margin, people feel Massachusetts should guarantee a college education to every student who qualifies. People favor raising tuition at public colleges and universities for those who can afford it by the same margin.
- To the extent people would cut state spending, scholarships to private colleges and universities lead the list of possible cuts.

Peter McKenzie, Financial Vice President at Boston College, moderated the session on financing strategies. Speakers included Bob Forrester, Partner, Coopers & Lybrand; Ted Freeman, President, The Educational Resources Institute; Ned Murphy, Executive Director, HEFA; and Ben Wolfe, Vice President, Goldman Sachs & Co. (The latter four organizations sponsored the session.) ■

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Facilities Authority
99 Summer Street, Suite 1000
Boston, MA 02110

Ms. Belle L. Siegel
Serials and Documents
Massachusetts State Library
442 State House
Boston, MA 02133

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MONITOR

APRIL-JUNE 1991 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 4, NO. 2

Two Recent Upgrades

Berklee College of Music and Charlton Hospital are two very different credits with one thing in common. They both achieved an upgrade from Standard & Poor's Corporation in one of the most adverse credit climates in recent memory. Each swam upstream to win higher ratings, overcoming the accumulated negative publicity surrounding the Commonwealth of Massachusetts' fiscal crisis and specific bad news within its industry. With Berklee, it was the threat of the nationwide demographic downturn, as well as the rating agency wariness of small, specialized institutions. For Charlton, which had been downgraded by S&P only a year before, the challenge was in overcoming the negative perceptions of healthcare reimbursement in a "regulated" state such as Massachusetts. In addition, the hospital's service area, which includes Fall River, has been hit hard by the recession.

The upgrades were unusual. For Berklee, its "A-" represents a jump of two rating notches (a rare occurrence in the conservative world of bond ratings) from its former rating of "BBB." Charlton's was the only hospital upgrade in recent years in the Commonwealth.

Berklee owes its success to several factors, according to Standard & Poor's — "stable enrollment, a good geographical draw, solid operating surpluses, and very strong liquidity." Offsetting factors include the school's relatively small size and its narrow curriculum focus. Berklee, located in

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Boston University Refinances with $95,925,000 Bond Issue

Documents are signed at the closing of Boston University's bond issue by (standing, l-r): Ned Murphy, Executive Director, HEFA; Kenneth G. Condon, Vice President for Financial Affairs, BU; Stephen A. Williams, Assistant General Counsel, BU; (seated, l-r): Marie H. Duquette, Director of Investments, BU; Lydia Crowson, Deputy Director, HEFA; and Martin J. Howard, Assistant Vice President for Financial Affairs, BU.

Boston University is the first university in the nation to take advantage of a new financial product offered through the Authority. The innovative product called "RIBS/SAVRS" was developed by the underwriting firm, Lehman Brothers. It enables issuers and borrowers to raise long-term, fixed-rate funds in the tax-exempt market at a net interest cost below the prevailing market rate for comparably rated, fixed-rate bonds. RIBS/SAVRS save money for borrowers because they create a fixed-rate security from two floating-rate instruments, hence playing down the yield curve and thereby achieving a lower rate. BU's results were extraordinarily competitive — 6.75% for a 40-year maturity.

The bonds, which sold on June 6, were issued to refinance the majority of the University's 1985 Series G Bonds which originally sold at interest rates as high as 8.875%. The new bond issue included $6,725,000 in serial bonds which mature from 1992 through 2006. The balance of the issue — $89.2 million — was split evenly between Re-

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For information

For additional information on RIBS/SAVRS or other synthetic products, contact Lydia Crowson at 617-737-8377.

Newton-Wellesley Hospital begins $40 million renovation project

Newton-Wellesley Hospital, a 340-bed acute care hospital and a major teaching affiliate of the Tufts University School of Medicine, commenced a major renovation project this spring, which was financed by a $40 million bond offering through the Authority. Newton-Wellesley's Series D Issue was sold on April 10 and was insured by the Municipal Bond Investors Assurance Corporation. The issue was comprised of serial bonds with maturities from 1993 through 2003 which sold at interest rates from 5.20% to 6.60%. Two term bonds maturing in 2007 and 2015 were priced to yield 7.00% and 7.05%, respectively.

Bond proceeds will finance renovations and equipment purchases. Renovations will include a maternity unit project involving the development of 22 individual labor-delivery-recovery-postpartum care rooms, a pediatric department project, relocation of the pediatric gastroenterology facility, and expansion of the outpatient physical therapy and rehabilitation services.

Based on the Hospital's own credit, the Series D issue would have carried an A/A- rating, making insurance optional. However, after weighing the costs and benefits, the Hospital opted for insurance and its Aaa/AAA rating. On the day of the sale, the differential between an A-rated bond and a triple-A-rated bond issue was approximately 40 basis points (0.4%), affording the Hospital substantial savings in debt service over the terms of the bond issue. ■

At the closing of Newton-Wellesley Hospital's bond issue are (l-r): Ronald E. Bartlett, Treasurer and Senior Vice President for Finance of the NeWell Health Care System, Inc., and Newton-Wellesley Hospital; Benjamin S. Wolfe, Vice President, Goldman, Sachs & Co.; Bonnie R. Siegal, Senior Vice President, Donaldson, Lufkin & Jenrette; and Lydia Crowson, Deputy Director, Massachusetts Health and Educational Facilities Authority.

HEFA Financings: September 1990 through June 1991

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term
Smith College	Northampton	C	$ 16,000,000	09/11/90	9 years, fixed
Fairview Extended Care Services, Inc.	Pittsfield	A	39,600,000	09/26/90	30 years, fixed
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Beverly Hospital	Beverly	E	8,000,000	10/12/90	27 years, fixed
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Nichols College	Dudley	B	9,400,000	01/30/91	29 years, fixed
Harvard University	Cambridge	M	153,275,000	02/06/91	23 years, fixed
Lowell General Hospital	Lowell	A	17,610,000	03/27/91	20 years, fixed
Newton-Wellesley Hospital	Newton	D	40,000,000	04/10/91	24 years, fixed
Charlton Memorial Hospital	Fall River	B	50,000,000	05/03/91	21 years, fixed
Boston University	Boston	J,K,L	95,925,000	06/06/91	40 years, RIBS SAVRS
Total			**$499,760,000**		

HEFA Board Members Attend Retreat

Authority board members recently assembled for another annual retreat to review the Authority's portfolio and to reflect on the quality of financial services offered. This year, the day-long retreat was held May 8th at MIT's Endicott House in Dedham. In addition to its agenda of policy and operational issues, the Board considered the impact that recent federal and state legislation might have on health care and higher education.

Charles Baker, Undersecretary for Health Services in the Executive Office of Health and Human Services, briefed the members about the Governor's current agenda. In particular, Baker expounded on the Administration's plans regarding the expiration of Chapter 23. Mr. Baker also discussed the Commonwealth's intention to file a waiver with the federal Health Care Finance Administration for managed-care Medicaid. Baker described the administration's efforts to further define uncompensated care as well as the preliminary findings of the Governor's Consolidation Commission. Mr. Baker expressed his appreciation to the Authority members for HEFA's effort in creating a financing structure for community housing for clients from the Departments of Mental Health, Mental Retardation and Public Health.

A second presentation, by Patrick Murphy, the President of the Government Relations Group for KRC Resources, Inc. in Washington, DC, addressed issues facing public finance, health care, and higher education. According to Murphy, the 102nd Congress is facing a full agenda of legislative issues of interest in the areas of tax and finance that will keep both the House and Senate busy well into the Fall. Mr. Murphy briefed the board on a wide range of legislative proposals; however, two congressional initiatives of particular interest to board members focused on proposed indigent care requirements on 501(c)(3) hospitals and the removal of the $150 million tax-exempt debt cap for higher education institutions.

Two bills, H.R. 790 Roybal, D-CA; and H.R. 1374 Donnelly, D-MA, require institutions to meet prescribed levels of charity care, Medicare, and Medicaid as well as other community services in order to qualify for access to tax-exempt financing. Murphy reported that both bills are considered very controversial and face fervent opposition from 501(c)(3) hospitals. Roybal's measure has received luke-

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'Financial innovations are useful only when they appropriately address the client's needs. HEFA's role as the go-between for our client institutions seeking new financial solutions on Wall Street requires us first to properly define and articulate the problem before marshalling the creative forces of the investment banking community.'

NED MURPHY, EXECUTIVE DIRECTOR
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Capital Asset Program Loans: September 1990 through June 1991

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Melrose-Wakefield Hospital	Melrose	3,000,000	01/08/91	12 years
Total		**$21,100,000**		
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Shaunessy-Kaplan Rehabilitation Hospital	Salem	4,000,000	02/08/91	3 years
Visiting Nurses Association	Salem	500,000	02/18/91	3 years
Lahey Clinic	Burlington	3,000,000	02/25/91	5 years
Mount Auburn Hospital	Cambridge	3,000,000	03/12/91	7 years
Total		**$13,000,000**		

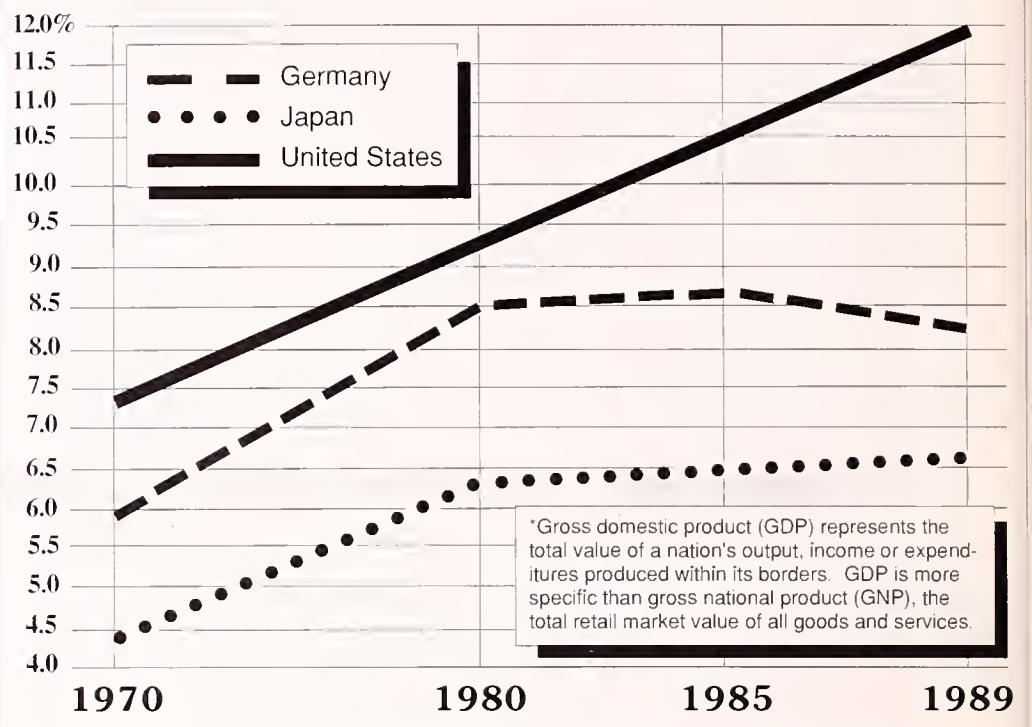
HEFA Policy Forum Series Continues

The Authority sponsors forums on topics of current interest to Massachusetts health care and educational institutions several times a year. Recent seminars have focused on what we can learn from health care systems in other jurisdictions. This spring, two events were held for an audience of health care professionals and interested parties from business, the media, the state legislature, and the Weld Administration. The forum, held May 1, focused on the health care delivery and reimbursement systems in Germany; the June 6 forum featured the Japanese system.

At the May event, Professor Deborah Stone, a recognized expert on the German health care system, made a presentation of her research. Dr. Stone, a faculty member at Brandeis University and Visiting Professor at Yale University, detailed Germany's universal access to health care and its unusually generous benefits package. According to Stone, employers and employees contribute in equal parts for coverage through payroll taxes ranging between 8 and 16 percent of employee income. These contributions are made to "sickness funds" used to provide a uniform set of benefits nationally. The approximately 1,100 sickness fund associations in conjunction with physician associations establish fee rates and hospital per diems, leading to the successful cost-containment measures for which the Federal Republic is renown.

Dr. Stone also elaborated on the changes in store as the consolidation of East and West German health systems occur during the next decade. Transforming East Germany's state-run system to a private sector model will undoubtedly prove to be costly and complicated, but the process will reveal valuable lessons on managing change.

Total health expenditures as a percentage of gross domestic product (GDP),* 1970-1989



Source: Organization of Economic Cooperation and Development, Paris, 1991

The forum on the Japanese health care system featured a presentation by William Steslicke, a faculty member at the University of South Florida. Dr. Steslicke has published widely on the Japanese health system, and recently returned from nine months in Japan studying as a Fulbright Research Fellow. Dr. Steslicke described the similarities between the Japanese and the German system, including universal health insurance coverage with payments tied to income. In both countries, the government plays a major role in cost containment; however, their methods are quite different. In Japan, for example, fees are fixed nationwide for inpatient care, outpatient visits, drugs and other interventions, but there are no limits on total spending. Germany addresses cost containment differently by placing ceilings on total health care outlays.

Dr. William P. Steslicke, Associate Professor at the University of South Florida, addresses forum participants on the health care system in Japan.

Although their system was developed as recently as post World War II, Steslicke sees a movement toward managed care in Japan. It is his experience that the Japanese are now investigating the efficacy of managed care systems to further control costs and improve quality.

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Upgrades

continued from page 1

Boston, Massachusetts, specializes in undergraduate contemporary music study. Major fields of study include performance, professional music, songwriting, music education, film scoring, music synthesis, commercial arranging, music engineering, and composition with special emphasis on jazz and rock.

David Hornfischer, Dean of Administration, stated, "We feel this rating recognizes Berklee's strength as a financial credit and confirms Berklee's international standing as a college of music."

Charlton's rating was raised from BBB+ to A-, based, according to Standard & Poor's, on increasing utilization, solid financial performance despite its restrictive reimbursement environment, sound management, and a dominant market position. Charlton Memorial Hospital is a 324-bed, acute-care facility located in Fall River, Massachusetts.

The Berklee transaction is still in progress; Charlton closed its issue on May 22nd. The Hospital's Series B Bonds were sold through a negotiated offering led by First Boston Corporation with serials maturing 2001 at interest rates ranging from 5.50% to 7.10%; the 7.25% term bonds maturing in 2007 and 2013 were priced to yield 7.44% and 7.53%, respectively. The bulk of the Series B bonds were used to advance refund the Authority's prior issue, Series A, which netted Charlton approximately $9.5 million in present value savings. Other projects included constructing a parking facility, equipment purchases, and future capital expenditures. The hospital's strong rating results qualified the issue for bond insurance, which hospital officials chose to decline after considering the financial implications and covenant restrictions of having the bonds insured. ■

Closing documents are signed for Charlton Memorial Hospital's bond issue by (l-r): William G. Heaney, Vice President of Finance, Charlton Memorial Hospital; Ned Murphy, Executive Director, HEFA; Donald F. Winter, Palmer & Dodge; William A. Neilan, Senior Vice President and Treasurer, Charlton Memorial Hospital; James R. McGuirk, Edwards & Angell; and Anthony R. Masiello, Palmer & Dodge.

Boston University

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sidual Interest Bonds ("RIBS"), and Select Auction Variable Rate Securities ("SAVRS"), both of which have a final maturity in 2031, subject to mandatory sinking fund payments beginning in 2007. The issue received a AAA/Aaa rating because the bonds are insured by MBIA.

A conventional, insured, fixed-rate financing would have probably sold in the 7% range. Using the new RIBS/SAVRS structure, as opposed to a conventional fixed-rate structure, the University stands to save more than $9 million over the 40-year maturity. The RIBS/SAVRS structure generally requires an issue size of greater than $40 million and is geared for stronger credits or enhanced issues.

"A 40-year credit enhancement commitment for a university is unusual," commented Lydia Crowson, the Authority's Deputy Director and advisor on the financing. Our understanding is that this represents MBIA's first 40-year commitment for a university." She added, "I think the merits of a RIBS/SAVRS structure are evident in the BU sale, and its application for other institutions is encouraging." ■

Forum

continued from page 4

The disadvantages of both systems were also discussed. The average length of stay in a hospital in 1987 in Japan is 52.9 days and in Germany, 17.1 days, compared to the United States which reported 9.2 days for the same reporting year. Both countries have an over-reliance on prescription drugs and both nations face extremely perplexing problems surrounding care for their elderly.

"As successor legislation for Chapter 23 is being considered by all participants in the health care industry, the interest in a successful foreign solution is understandable," commented the Authority's Executive Director Ned Murphy. "The fact that spending for health care in the United States increased an average of 10 percent annually throughout the 1980s is reason enough to view systems in other jurisdictions where cost containment without an erosion in quality has been successful."

The health policy forums will continue in September, when the health care delivery and reimbursement system in Maryland will be examined. Copies of the briefing materials for each of the forums are available by contacting Julie Fay at 617-737-8377. ■

Proposed IRS 'Pyramid Bond Regulations'

The IRS has proposed regulations which are expected to go into effect September 7, 1991, restricting tax exempt financing to reimburse costs incurred in advance of financing, or the "reimbursement of internal advances". This type of financing, when abused, is typically referred to as "pyramid bond" financing, implying that if allowed to finance internal advances far enough into the past, issuers would obtain financing for the costs of constructing the pyramids. The regulations are intended to prevent borrowers from borrowing, ostensibly to reimburse such advances, when the actual intent is to earn arbitrage on the bond proceeds, but may also preclude financing in other situations. The following questions and answers were prepared by HEFA's General Counsel, Martin Rainford, to provide guidance on how the IRS standards might affect your financing plans.

Q: How will the regulations affect financing for projects we have already started?
A: Any costs incurred prior to September 8, 1989 will not be eligible for tax exempt financing after September 7, 1991, unless all of the rules in the proposed regulations were complied with, which is extremely unlikely. Costs incurred after September 8, 1989 will only be eligible for financing after September 7, 1991 if specific transition rules were complied with at the time the costs were incurred. In general, it will be advisable to finance such projects prior to September 7, 1991.

Q: What do I do to safeguard financing options for projects we start before September 7th?
A: One way is to obtain interim financing, from one of the Authority's "pools", for instance, before paying project expenses. You can also declare "official intent" to borrow funds for any project, before incurring expenses, by adopting a vote to approve expenditures "in anticipation of taxable financing or of tax exempt financing through HEFA". The vote should describe the type and use of the property to be purchased, the source of funds for the initial expenditure and the expected source(s) of funds for repayment of the bonds. Votes should be kept in files available to the public. You can use HEFA as a depository for such votes, provided that the vote is supplied to HEFA within 10 days of enactment.

Q: What deadlines are there for refinancing the expenses we incur?
A: The proposed regulations will require that the expenditure be made within two years of the authorizing vote and that bonds be issued no later than one year after the project was placed in service. For projects which take more than two years to complete, renew your "declaration of intent" before the two years expires. Annual renewal would provide a margin for comfort.

For information

We will keep you updated on this issue as the regulatory process proceeds. Please call Martin Rainford at 617-737-8377 if you need more information.

Q: What are some of the traps we might fall into?
A: Under the proposed regulations, there must be a pattern of actually following through on financing projects if votes were adopted to refinance internal expenditures. At least 75% of the expenses authorized and paid in anticipation of reimbursement during the three prior years will have to actually be financed. Avoid adopting votes authorizing internal advances for your "entire capital budget" and focus on projects for which financing will be necessary. Also, each discrete project within a financing needs to be reviewed carefully for its compliance with the proposed regulations. ■

Capital Lease Financings: January 1991 through June 1991

Institution	Location	Amount	Project	Sale Date	Placement Agent
Jordan Hospital 1	Plymouth	$ 2,535,254	Equipment	01/17/91	M.R. Beal & Co.
Cape Cod Hospital 1	Hyannis	1,259,143	Equipment	04/24/91	M.R. Beal & Co.
Cooley Dickinson Hospital 3	Northampton	2,000,000	Equipment	05/01/91	Adams, Harkness and Hill, Inc.
Anna Jaques Hospital 1	Newburyport	2,084,191	Equipment	05/17/91	Nexus Capital Resources
New England Memorial Hospital 1	Stoneham	2,700,000	Equipment	05/22/91	Dillon Read & Co.
Total		**$10,578,588**			

New Products

Applications Being Accepted for New HEFA Pool Loan Program

HEFA's Capital Asset Pool Programs have provided access to the lowest-cost capital for nonprofit institutions since the first pool was created in 1984. Funds from HEFA's eight existing pools — more than $703 million — have been depleted, and demand has never been greater. In response to that demand, HEFA will issue Series K, a new pool with many timely and economical features. Applications for Series K loans are now being accepted.

Series K is being underwritten by the First Boston Corporation and enhanced with a letter of credit from the First National Bank of Chicago — two organizations with an established track record in tax-exempt finance for Massachusetts' not-for-profit institutions.

The Series K bonds will be structured initially as variable-rate bonds — either commercial paper mode with maturities of no longer than 270 days or seven-day put bonds. The nominal maturity of the bonds will be up to 30 years. The first tranche of the pool will be sold this summer. The tranche size will be in the range of $25-$30 million.

Since this tranche of Series K will be sold prior to the implementation of the new IRS regulations regarding internal advances, any loans made will fall under reimbursement practices now in effect (hence, practices that are more liberal than those proposed). Furthermore, HEFA intends to give the initial participants in the Series K pool "priority," preferred position for loans made from recycled monies — these monies will be "grandfathered" under the old IRS regulations. For additional information and an application form, please contact Lydia Crowson at 617-737-8377.

Capital Lease Program

Interest in tax exempt leasing is drawing increasing attention nationwide, and is reflected in the development of diverse financing options, many of which are available exclusively through the Authority.

Financings for smaller capital leases can be structured under HEFA's Capital Lease Program. Transactions can be structured by private placement agents or by direct sale of obligations to investors. Advantages, as compared to other sources of financing, include expedited approvals, low up-front costs, fixed rates and standard documentation generally including no financial covenants. Security consists primarily of the equipment financed.

New options available under the Capital Leasing Program include direct placement of leases with General Electric Medical Systems or Chrysler Public Capital Corporation. These direct placements will involve more responsibility for the borrower in making financial presentations and evaluating alternative sources of financing, but will result in direct cost savings on placement fees.

Under the "GEMS" Program developed by HEFA with General Electric Medical Systems, hospitals can obtain financing of equipment purchased from GE at tax exempt rates, for "one-stop shopping." To obtain information about application procedures and placement agents, call Martin Rainford at 617-737-8377.

Fitch Returns to the Massachusetts Municipal Market

Beginning over a year ago, investors began seeing a new name on the ratings of Massachusetts health care and higher education issues. This is Fitch Investors Service, Inc., which has joined Moody's Investors Service and Standard & Poor's Corporation in providing ratings on a range of tax-exempt credits. In 1989, Fitch was purchased and recapitalized, and new management dramatically built up its staff to 140 professionals, from 45 the previous year. The public finance area has 20 professionals, with five specializing in health care and higher education. Fitch has been reaffirmed by the Security and Exchange Commission as a nationally recognized statistical rating organization and has been recognized as an "approved rating agency" by the U.S. Dept. of Labor and the National Association of Insurance Commissioners.

Prior to 1989, Fitch was a distant third in terms of number and breadth of ratings offered, having chosen instead to concentrate on certain industries such as nursing homes and retirement communities. In the recapitalization, Fitch retained this expertise and holds a leadership position in rating these types of credits. Fitch's rating nomenclature is similar in most categories to either Moody's and S&P's, ranging from "BBB" to "AAA." Fitch's fees are comparable, as well. Several HEFA clients, including WalthamWeston Hospital, Valley Regional Health System, Framingham Union Hospital, Goddard Memorial Hospital, and Lowell General Hospital, have chosen to be rated by Fitch in addition to or in lieu of the other two agencies to add depth to the analysis and to give the investment community another reference by which to judge a credit. ■

Retreat

continued from page 3

warm support with few Congressmen having responded positively to his request for co-sponsors. The Donnelly bill had no co-sponsors. According to Murphy, "As with last year, both bills will energize a vocal opposition and ultimately go down to defeat. What does seem likely is that some limited portion of these bills will be passed on their own or as part of the national health insurance legislation which is starting to surface on Capital Hill."

Senate bills introduced by Matsui, (D-CA), and Moynihan (D-NY) seek to remove the $150 million cap on tax-exempt bonds for colleges and universities. "No one has developed a satisfactory revenue offset to pay for this program which, for budget purposes, is scored as a loss," commented Murphy. "As you might expect, this is not very popular with hospitals because they fear they would lose available bond financing to higher ed. The 21 major universities who would like to remove the cap restriction are lobbying hard. It is too early to say how this will turn out."

The final session of the retreat involved presentations and discussion regarding proposals for new and innovative financial structures for various groups of HEFA institutions. The Board gave its approval to staff to further refine these state-of-the-art programs and to begin to engage institutions and underwriters in the design. "Financial innovations are useful only when they appropriately address the client's needs," commented HEFA Executive Director Ned Murphy. "HEFA's role as the go-between for our client institutions seeking new financial solutions on Wall Street requires us first to properly define and articulate the problem before marshalling the creative forces of the investment banking community." ■

Massachusetts Health and Educational
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MONITOR

JULY-SEPT 1991 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 4, NO. 3

Deaconess Achieves $53 Million Financing

The New England Deaconess Hospital sold $53,370,000 in tax-exempt revenue bonds on August 15. The Deaconess is an adult-specialty referral hospital and a major teaching affiliate of the Harvard Medical School. Bond proceeds will be used for site preparation in connection with the expansion and upgrading of the Hospital's clinical facilities and for several construction and renovation projects on the hospital campus. Bond proceeds will also be used to reimburse the Hospital for prior capital expenditures and to refinance some existing debt.

(L-r): Francis C. Taylor, Director and Manager, Prudential-Bache Capital Funding; Edward R. Kushmerek, Controller, New England Deaconess Hospital; C. Vincent Vappi, Chairman of HEFA's Board; and William J. Robinson, Senior Vice President and Chief Financial Officer, New England Deaconess Hospital, attend closing of the Hospital's financing.

The bond issue consists of serial bonds maturing from 1992 to 2006 with interest rates ranging from 5.15% to 7.13%. Two term bonds maturing in 2011 and 2022 were priced to yield 7.32% and 7.38%, respectively. The bonds were issued within an Obligated Group structure that includes New England Deaconess Hospital Corporation and Deaconess Professional Practice Group, Inc., a non-profit physicians' practice. The parent organization, NEDH Corp., provided a guarantee.

Moody's Investors Service, Inc., Standard & Poor's Corporation and Fitch Investors Service each assigned the bonds an "A" rating. The issue was underwritten by Prudential Securities Incorporated.

"Despite heavy volume the Deaconess did extremely well," commented HEFA Executive Director Ned Murphy. "The rating agencies were very favorably impressed with the Hospital and the remarkable success management has achieved in the last several years. These factors combined to result in a bond sale with an aggressive true interest cost of 7.4992%," he added. ■

Fallon/Saint Vincent Healthcare System Sells through Market

The Fallon Healthcare System (the "System"), an integrated healthcare delivery group in central Massachusetts, completed a major financing package with the sale of $69,070,000 in revenue bonds on August 23. The System is an obligated group comprised of the Fallon Foundation, Inc., Fallon Community Health Plan, Inc., and Saint Vincent Healthcare System, Inc.

Bond proceeds will be used to refinance various pieces of existing debt, reimburse certain capital expenditures made by Saint Vincent Hospital, and establish a capital base for future capital expenditures. The issue was insured by Capital Guaranty Insurance Company.

The bond issue priced aggressively, with serial bonds maturing from 1992 to 2004 at yields ranging from 4.8% to 6.7%. Three term bonds maturing in 2011, 2020 and 2021 were priced to yield 6.979%, 7.025, and 6.894%, respectively.

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Boston College Refinances: $36 Million Issued

Boston College took advantage of extremely favorable market conditions and refinanced $36,760,000 of debt. The refinancing and debt restructuring took place with a bond sale on July 25. Bond proceeds were used to refund the College's Series G Bonds which were originally issued in 1985.

The bonds were insured by Financial Guaranty Insurance Company and carry its Aaa/AAA ratings assigned by Moody's Investors Service, Inc. and Standard & Poor's Corporation. The bonds were underwritten by Goldman, Sachs & Co. and BayBank Boston, N.A.

The bond issue sold at extremely competitive rates ranging from 4.50% to 6.50% for serial bonds maturing from 1992 to 2004 and 6.90% and 6.95% for the two term bonds maturing in 2011 and 2021, respectively. The true interest cost of the issue was 6.93%.

"We anticipate that the refinancing will result in present value savings of approximately $2,585,000 for the College," remarked Peter McKenzie, Financial Vice President at Boston College. "I'm very pleased at how well the issue sold. We knew we were going into an advantageous market, but the interest rates surpassed our expectations," he added. ■

Seated, from left: Peter C. McKenzie, Financial Vice President and Treasurer, Boston College; Ned Murphy, Executive Director of HEFA. Standing, from left: Benjamin S. Wolfe, Vice President, Goldman, Sachs & Co.; Paul P. Haran, Associate Treasurer, and Mark F. O'Connor, Acting Director, Arts and Sciences Honors Program, Boston College, sign documents at the closing.

HEFA Hosts Briefing on Expiration of Chapter 23

More than 100 investors, insurers, rating analysts and fund managers gathered in New York, Chicago and Boston on August 1 to be briefed by policymakers and representatives of the Massachusetts health care industry. The briefing, sponsored by HEFA, focused on the range of options facing the Commonwealth as the hospital reimbursement statute known as Chapter 23 expires on September 30.

Panelists (l-r) Ann M. Thornburg, Partner, Coopers & Lybrand; Robert R. Fanning, President, Beverly Hospital; Charles D. Baker, Undersecretary for Health, Massachusetts Executive Office of Health and Human Services; Richard Lord, Vice President of Research, Associated Industries of Massachusetts; and Ned Murphy, Executive Director, HEFA, brief representatives of the investment community on prospects for successor legislation to Chapter 23.

Edward M. Murphy, the Authority's Executive Director, moderated the session, which was held at the World Trade Center in New York City. Charles D. Baker, who currently serves as Undersecretary for Health in the Executive Office of Health and Human Services, presented the views held by the Weld administration with respect to successor legislation. Robert R. Fanning, President of Beverly Hospital and past Chairman of the Massachusetts Hospital Association, briefed those in attendance on the views of the hospital industry and presented the ideas and issues raised by the Hospital Association.

Richard C. Lord, Vice President and Director of Research for the Associated Industries of Massachusetts (AIM) discussed the need for health care reimbursement reform as established by AIM's diverse constituency. A former

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Amherst, Bentley and Berklee College of Music Finance with Competitive Bids

The Authority has had a long and successful history of competitive sales for its college and university constituents. Three different types of colleges — a liberal arts college, a business school with a focus on accounting, and a center for the performing arts — have recently obtained inexpensive, flexible financing through sales conducted by the Authority and its financial advisors. Competitive sales remain a highly attractive vehicle for transactions of less than $20 million.

Three competitively bid bond financings took place this summer for Bentley College, Amherst College and Berklee College of Music.

Amherst College completed its $11,315,000 bond sale on August 8. Bond proceeds will be used for capital maintenance, repairs and renovations to numerous facilities owned by the College. The College sold the bonds on its own rating of Aa/AA+, as determined by Moody's Investors Service and Standard & Poor's, respectively.

Kidder, Peabody & Co., Incorporated, purchased the bonds with a true interest cost to the College of 6.7800%. Interest rates on the serial bonds maturing from 1992 to 2009 ranged from 5.85% to 6.70%. Two term bonds maturing in 2015 and 2021 were priced to yield 6.85% and 6.90%, respectively.

Bentley College Issue Series H sold on July 24. The low bidder again was Kidder, Peabody & Co., Incorporated. Bond proceeds from the $12,995,000 issue will be used for improvements to the College's existing athletic fields, construction of an artificial turf intramural field, and the renovation and

continued on page 4

Paul V. Silva, Controller, Bentley College, and Stephanie Gibson, Senior Managing Consultant, Public Financial Management, sign documents at the closing of the College's financing.

Authority Introduces 'Star Fund'

Authority members launched a new investment management service with a vote establishing the Short Term Asset Reserve Fund ("STAR Fund") at the July meeting. The STAR Fund is a professionally managed money market investment fund developed for the express purpose of temporary investment of proceeds of bonds or notes, and is available to any non-profit institution that has completed a transaction through the Authority.

The STAR Fund is structured similarly to most mutual funds, but has many additional benefits. By pooling the funds of many participants, the STAR Fund seeks to provide the following benefits:

Liquidity: Participants may withdraw funds at any time.

Income: The STAR Fund seeks to earn the highest income consistent with preserving principal and maintaining liquidity.

Convenience: Participants do not have to schedule investment maturities to meet project draw schedules.

Professional Management: STAR Fund investments are managed by investment professionals who follow both general economic and current market conditions affecting interest rates.

Diversification: Each Participant in the STAR Fund will own units in a diversified portfolio of high-quality instruments.

Arbitrage Rebate Compliance: The STAR Fund is designed to assist participants in complying with certain arbitrage rebate requirements under the Internal Revenue Code of 1986.

Accounting, Safekeeping and Separate Accounts: The STAR Fund provides a system which accounts for each participant's investment in a manner compatible with accounting and auditing requirements, and does all of the bookkeeping and safekeep-

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Fallon

CONTINUED FROM PAGE 1

The bonds were underwritten by Morgan Stanley & Co.

"I believe that we hit the market at an optimal time as evidenced by the competitive true interest cost of 7.227%," commented Alan M. Stoll, Executive Vice President of the Fallon Foundation and Vice President for Administration for The Fallon Clinic. "The issuance process went very smoothly, and we are gratified that System bonds were so well received on Wall Street," he said.

"We were quite pleased with the results of the financing," stated HEFA Executive Director Ned Murphy. "The Fallon/Saint Vincent system was recognized as strong and dynamic by the investment community. This bodes well for its future growth." ■

Fallon executives (l-r) Joseph A. Podbielski, M.D., President, the Fallon Foundation and President, The Fallon Clinic; James Carris (standing), Chief Financial Officer, The Fallon Clinic; and Alan M. Stoll, Executive Vice President, the Fallon Foundation, and Vice President for Administration, The Fallon Clinic, sign closing documents.

Star Fund

CONTINUED FROM PAGE 3

ing associated with the ownership of securities.

Public Financial Management, Inc. (PFM) has been selected to be the investment manager for the Fund. PFM is under contract to the Authority for financial advisory services and has expertise with capital financing for the Commonwealth's health care and higher education institutions. PFM was the largest financial advisory firm in the nation in 1990, advising on 173 transactions totalling $6.5 billion. In addition, PFM currently oversees investments of more than $4 billion in operating funds and bond proceeds for state and local governments.

To participate in the STAR Fund, an institution must submit a STAR Fund Registration Form to the Authority. Registration forms are available by contacting Steve Dansby at 617-737-8377. ■

Chapter 23

CONTINUED FROM PAGE 2

Chief of Staff of the Massachusetts House Committee on Ways and Means and original participant in the Chapter 23 negotiations, Mr. Lord also focussed his remarks on the process options available to the Weld administration, industry and the legislature as the debate unfolds. Ann M. Thornburg, Coopers & Lybrand's Partner-In-Charge of Health Care for the Boston Office and Northeast Region, briefed participants on trends that have emerged as a result of Chapter 23 implementation with respect to different aspects of the industry. Mrs. Thornburg also discussed the potential impact of several of the proposals being considered.

"We scheduled the session as part of our continuing effort to keep the investment community well-informed about developments in the Commonwealth," commented Mr. Murphy. "There was tremendous interest in not only the substance of successor legislation but the debate process as well. Although there still exists some divergence of opinion in what shape the new legislation will take, I think the panel managed to establish for the investment community the collective desire for an orderly, sensible debate and implementation process," he added. ■

Amherst

CONTINUED FROM PAGE 3

expansion of the Classroom Building, including the development of a science laboratory and new classroom space. Bond proceeds were also used to advance refund another bond issue.

Market conditions were highly favorable for the Bentley financing. Serial bonds which matured from 1992 to 2008 had interest rates ranging from 5.75% to 6.85%. Term bonds maturing in 2012 and 2021 were priced to yield 6.90% and 7.00%, respectively. The bonds were insured by Municipal Bond Investors Assurance Corporation and were therefore rated Aaa/AAA.

Berklee College of Music also had a highly successful competitive sale. The College sold $13 million of bonds on August 7. Bond proceeds will be used to reimburse the College for the acquisition and renovation of several buildings in Boston as well as to finance new capital equipment. ■

HEFA Financings: January 1991 through September 1991

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term
Nichols College	Dudley	B	$ 9,400,000	01/30/91	29 years, fixed
Harvard University	Cambridge	M	153,275,000	02/06/91	23 years, fixed
Lowell General Hospital	Lowell	A	17,610,000	03/27/91	20 years, fixed
Newton-Wellesley Hospital	Newton	D	40,000,000	04/10/91	24 years, fixed
Charlton Memorial Hospital	Fall River	B	50,000,000	05/03/91	21 years, fixed
Boston University	Boston	J,K,L	95,925,000	06/06/91	40 years, RIBS SAVRS
Bentley College	Waltham	H	12,995,000	07/24/91	29 years, fixed
Boston College	Boston	J	36,760,000	07/25/91	29 years, fixed
Amherst College	Amherst	E	11,315,000	08/06/91	29 years, fixed
Berklee College of Music	Boston	C	13,000,000	08/07/91	29 years, fixed
New England Baptist Hospital	Boston	B	33,895,000	08/08/91	25 years, fixed
New England Deaconess Hospital	Boston	C	53,370,000	08/15/91	30 years, fixed
Winchester Hospital	Winchester	C	8,550,000	08/15/91	19 years, fixed
Fallon Healthcare System	Worcester	A	69,070,000	08/23/91	29 years, fixed
Massachusetts Institute of Technology	Cambridge	G	25,000,000	08/26/91	Variable
Massachusetts Eye & Ear Infirmary	Boston	A	51,200,000	09/13/91	20 years, fixed
Saint Elizabeth's Hospital	Boston	C,D,E	93,185,000	09/18/91	30 years, ARC LEVRS
Lawrence General Hospital	Lawrence	B	10,885,000	09/19/91	10 years, fixed
Harvard University	Cambridge	N	141,820,000	09/20/91	29 years, fixed
Brigham and Women's Hospital	Boston	D	150,000,000	09/25/91	33 years, fixed
Total			**$1,077,255,000**		

Massachusetts Institute of Technology Completes Variable-rate Issue

Massachusetts Institute of Technology (MIT) officials thought everything was in place for a bond sale on August 22, but as Hurricane Bob roared up the Eastern Seaboard, the various legal counsel searched for a downtown office building yet to be evacuated and the underwriter valiantly attempted to reach Boston by train after the airport was closed. Finally, the sale was postponed as the lawyers were asked to evacuate their offices and felled trees stopped the Metroliner outside New Haven.

A successful $25 million sale took place the following week. The bond issue was a floating rate transaction with a nominal maturity of 30 years. The bonds were initially offered at weekly rates. However, MIT may convert to other rates such as daily or multiannual at the conclusion of any one-week period. The bonds were underwritten by BT Securities Corporation.

The $25 million, variable-rate issue was offered at an initial rate of 4.40%. Although unrated at the time of sale, MIT's paper priced in the same range as another institution's AAA-rated paper that was remarketed the same day. "MIT is a quality institution with a strong credit profile," commented Ned Murphy the Authority's Executive Director. "The market reacted accordingly."

(L-r): John A. Currie, Director of Finance, Glenn P. Stehle, Vice President and Treasurer, Allan S. Bufferd, Deputy Treasurer and Director of Investment, Massachusetts Institute of Technology; and Martin L. Rainford, Legal Counsel, HEFA, at the closing of the Institute's financing.

The proceeds of the bond issue will fund the planning, construction/renovation, and equipping of several facilities, including a 190-bed graduate student dormitory, the Rotch Library extension and expanded facilities for the Haystack Observatory. ■

BOARD MEMBERS UPDATE

Governor Weld Appoints New HEFA Board Member

Joseph G. Sneider of Chestnut Hill was appointed to the Authority's Board by Governor William Weld on August 2, 1991. Mr. Sneider is a Senior Vice President of the Olympic International Bank & Trust Co. in Boston. He is also Chairman of the Cambridge-based C & S Candy Company .

Mr. Sneider has served as a trustee of the University Hospital in Boston. He has also served on a number of public boards and commissions and belongs to several civic associations.

Mr. Sneider was appointed to serve a seven-year term on the board and succeeds Gerald D. Cohen, whose term expired July 1.

HEFA Board Member John Smith Honored

John Smith was honored at the 115th commencement exercises at Boston College where he has served as Financial Vice President and Treasurer. Mr. Smith was presented with an honorary Doctor of Business Administration degree for the "genius and creativity of his splendid stewardship" in directing the University's fiscal affairs.

Mr. Smith has been a HEFA board member since 1979 and Secretary of the Board since 1984. Mr. Smith's bold financial direction is largely credited with Boston College's evolution from a deficit-ridden institution with little liquidity and an endowment of just under $6 million 20 years ago into a financially sound institution with annual operating revenues of $236 million. During Mr. Smith's tenure, Boston College's total assets increased to over $653 million and has an endowment of $277 million — among the 50 largest of any college or university in the nation. Its physical plant assets also have increased from $50 million in 1972 to $324 million in 1990.

Mr. Smith retired from Boston College this summer after presiding over his 20th consecutive year of operating surpluses.

Authority Officers Re-elected

Authority Board members re-elected the existing slate of officers at the July meeting. C. Vincent Vappi was elected to his third term as Chairman of the Board. Robert R. Fanning, Jr. was re-elected as Vice Chairman, and John R. Smith will continue as Secretary.

IRS Postpones Implementation Date for Reimbursement Regulations

The Internal Revenue Service announced the delay of the effective date for new regulations regarding reimbursement of internal advances. The proposed regulations are intended to prevent borrowers from borrowing, ostensibly to reimburse such advances, when the actual intent is to earn arbitrage on the bond proceeds.

It was anticipated that the regulations would be effective on September 7. It appears that the regulations will now take effect 30 days after they are issued in final form. An announcement made in IRS Notice 91-28 stated that the final regulations would be issued "as quickly as possible" although no specific date was revealed.

Any questions regarding the new regulations' impact on tax-exempt financing can be directed to Martin Rainford at 617-737-8377 ■

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MONITOR

OCT-DEC 1991 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 4, NO. 4

Worcester Polytechnic Institute Completes $23.7 Million Bond Sale

Interest rate swap produces additional savings

Worcester Polytechnic Institute, the third oldest college of engineering and science in the country, completed a current refunding with the sale of $23,745,000 in bonds on December 11. The Institute refunded its 1988 Series D Issue which had been in a multiannual variable-rate mode. The new bonds, Series E, are fixed-rate and sold in a strong market. So strong was the market's reception, in fact, that after the initial offering the bonds were repriced, lowering yields for both term bonds and the serials.

As part of the overall financing plan, WPI entered into an interest rate swap in order to obtain additional savings, which have been calculated at $300,000 in the first year alone. Interest rate swaps are sophisticated derivative products currently available in the financial markets that permit institutions to obtain savings by

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At the closing of the Institute's bond sale are, l-r: Robert W. Gailey, Vice President for Business Affairs and Treasurer, Worcester Polytechnic Institute; Sylvia Cucinotta, Assistant Treasurer for Business Affairs, Worcester Polytechnic Institute; and Ned Murphy, Executive Director, Mass. HEFA.

Governor Weld Signs Hospital Finance Legislation

HEFA named to Conversion Board

The new hospital finance legislation, Chapter 495, was signed by Governor Weld on December 31. The bill, in a radical departure from its predecessor (Chapter 23), largely deregulates both hospital revenues and third party contracting and moves the Commonwealth toward a competitive health care marketplace. The bill also:

- sets inpatient price caps
- continues payment for free care for the uninsured and underinsured
- provides for the collection and dissemination of comparative price data and other information to assist purchasers in the marketplace
- establishes small business insurance reforms which increase the availability and affordability of insurance
- promotes primary and preventive care services.

Of significance to the public capital markets is a provision in the bill which calls for the inclusion of the executive director of the Massachusetts Health and Educational Facilities Authority in the membership of the Conversion Board. The Conversion Board is charged with overseeing the restructuring of failing hospitals. Participation of the Authority's executive director — currently Edward M. Murphy — gives the tax-exempt market a voice in deliberations over

continued on page 2

Massachusetts Eye and Ear Infirmary Completes $51.2 Million Financing

The Infirmary, widely respected as one of the world's foremost treatment, teaching and research institutions in the fields of ophthalmology and otolaryngology, sold $51.2 million in tax-exempt bonds on September 13. Bond proceeds were used to refinance the Infirmary's current taxable as well as tax-exempt debt and to finance new capital projects.

Capital projects undertaken by the Infirmary with bond proceeds include financing the acquisition of an administrative building and the renovation of the Infirmary's main clinical building. Improvements will also be made to the Infirmary's satellite facilities located in Methuen and Stoneham. Certain capital equipment for use in the main clinical building and the satellite facilities will also be acquired.

The bond issue, rated Baa1 by Moody's and BBB by Standard & Poor's, was comprised of three serial bonds (2002, 2003, 2004) and four term bonds (1996, 1998, 2001, 2011) with a true interest cost of 7.44%. The bonds were underwritten by Kidder, Peabody & Co. Incorporated. ■

At the closing of the Infirmary's bond issue are, standing, l-r: Leonard Weiser-Varon, Esq., Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.; Lydia Crowson, Deputy Director, Mass. HEFA; Anne P. Ogilby, Esq., Ropes & Gray; seated, l-r: Maynard Goldman, member of the Board of Directors of the Foundation and member of the Board of Managers of the Infirmary; F. Curtis Smith, Executive Vice President, and Peter J. Chinetti, Vice President of Finance, Massachusetts Eye and Ear Infirmary.

Lawrence General Hospital Restructures Debt

New projects also financed

Lawrence General Hospital, a 290-bed acute care community hospital, completed a debt restructuring program with the sale of $10,885,000 in bonds on September 19. The hospital took advantage of the strong market to refinance its existing debt portfolio. The hospital also issued bonds for several new capital projects, including renovations to the maternity, nursery, and labor and delivery units. The Hospital also anticipates the acquisition of capital equipment.

The bond issue, underwritten by First Chicago Capital Markets, was comprised of serial bonds 1994-1997, which were priced to yield from 6.25% to 7.00%, and one term bond. The term bond maturing in 2001 was priced to yield 7.75%. The bonds were rated Baa/BBB+ by Moody's and Standard & Poor's, respectively. ■

At the Hospital's closing are, standing: Ned Murphy, Executive Director, Mass. HEFA; seated, l-r: Robert B. Tremblay, Vice President, Fiscal Affairs, Lawrence General Hospital; Lydia Crowson, Deputy Director, Mass. HEFA; and Joseph S. McManus, President, Lawrence General Hospital.

Legislation

CONTINUED FROM PAGE 1

the fate of bond-issuing hospitals going through the conversion process.

"The inclusion of HEFA in the Conversion Board membership signals the Legislature's recognition of the importance of the capital markets," commented Ned Murphy. "HEFA participation in Conversion Board deliberations will assure that as hospital closings are examined, the interests of the capital markets will be considered." ■

Harvard University Completes Refinancing with $141 Million Bond Sale

Harvard University, one of six universities in the nation that maintain a triple-A rating, took advantage of historically low, long-term rates to advance refund the outstanding balance of a 1985 bond issue. Present value savings of approximately $14.9 million are expected to result from the transaction.

The Series F bonds were originally issued in January 1985 in the principal amount of $145,570,000, consisting of $16 million in serial bonds and $129 million of adjustable rate option bonds. In June 85, the adjustable-rate bonds were converted to an 8.5% coupon.

The refunding issue, Series N, sold September 20 with serial bonds 1996-2009 priced to yield from 5.3% to 6.50%. The 2020 term bond was priced to yield 6.53% and the issue had an overall true interest cost of 6.48%. The bonds were underwritten by BT Securities, Inc.

"Many institutions of higher education are monitoring market rates with an eye toward an advance refunding of outstanding debt. Present value savings opportunities abound in this market," observed Ned Murphy, the Authority's Executive Director. "Many institutions are also taking out variable-rate debt and locking in fixed rates due to the strength of the current market," he added. ■

Lydia Crowson, Deputy Director of Mass. HEFA; Charles E. Shepardson, Jr., Vice President, Finance, New England Baptist Hospital; and Neil C. Matthews, Vice President of Kidder, Peabody & Co., Inc., at the closing of the Hospital's bond issue.

New England Baptist Hospital Refinances

Strong market creates present value savings

More than $5,000,000 in present value savings were achieved by New England Baptist Hospital through the advance refunding of existing debt. The $37.5 million bond issue also reimbursed the hospital for prior capital expenditures. The bonds, rated A by both Moody's and Standard & Poor's, sold very aggressively. The interest rates on the 1992-2006 serial bonds ranged from 5.15% to 7.25%. Two term bonds, 2011 and 2017, were sold with coupons of 7.30% and 7.35%, respectively. The bonds were underwritten by Kidder, Peabody & Co., Inc.

New England Baptist Hospital, a tertiary referral facility renowned for its treatment of complex orthopedic conditions, is said to perform the greatest number of revision total hips and the second greatest number of primary hip replacements in the Western Hemisphere. In addition to its strong orthopedic reputation, the Hospital has special expertise in cardiology, oncology, gastroenterology, and gynecology, and in vascular, thoracic, and neurosurgery. ■

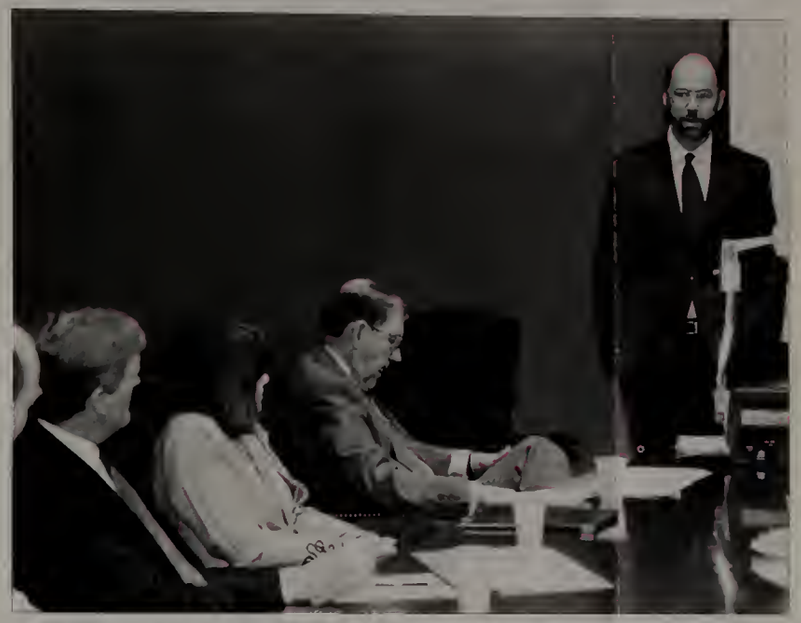
HEFA Lease Transactions: January 1991 through December 1991

Institution	Location	Amount	Project	Sale Date	Placement Agent
Jordan Hospital 1	Plymouth	$ 2,535,255	Equipment	01/17/91	M.R. Beal & Co.
Cape Cod Hospital 1	Hyannis	1,259,143	Equipment	04/24/91	M.R. Beal & Co.
Cooley Dickinson Hospital 3	Northampton	2,000,000	Equipment	05/01/91	Adams, Harkness and Hill, Inc.
Anna Jaques Hospital 1	Newburyport	2,084,191	Equipment	05/17/91	Nexus Capital Resources
New England Memorial Hospital 1	Stoneham	2,700,000	Equipment	05/22/91	Dillon Read & Co.
Whidden Memorial Hospital 1	Everett	918,000	Equipment	11/12/91	Nexus Capital Resources
Total		**$11,496,589**			

Health Policy Forum Focuses on Maryland's System

The distinctive features and performance of the health care reimbursement system in Maryland was the topic of the most recent health policy forum sponsored by the Authority. The forum, held September 20, examined the nation's first all-payer rate-setting system. The Maryland system is renowned for its success in cost containment. Maryland hospitals are for the most part financially sound, due in large part to stable and predictable revenues.

The featured speaker for the forum was Gerard F. Anderson, Ph.D., who currently serves as the Director of the Center for Hospital Finance and Management at Johns Hopkins University, where he is also on the faculty of the Department of Health Policy and Management. A former economist with the U.S. Department of Health and Human Services, Dr. Anderson has published extensively on the topic of health care finance. Dr. Anderson detailed the unique aspects of the highly-regulated Maryland system, then compared the results to the system in Minnesota, which is, as a highly competitive system, at the other end of the health care finance spectrum.



Dr. Gerard F. Anderson explains Maryland's system to participants in the Health Policy Forum.

Effect on Consumers

CHART 1	RATIO Baltimore to Twin Cities 1971	1989
Discharges Per Capita	.76	1.18
Days Per Capita	.82	1.29

Dr. Anderson maintains that a competitive system has a greater effect on consumers, while a regulated system has a greater impact on hospitals (see charts 1 and 2). Although those major distinctions exist, the annual increases in health expenditures per capita from 1969 to 1990 in Maryland and Minnesota were precisely the same — 11.2%. The same measure for the United States during that period was 11.3% and in Massachusetts was 10.8%.

According to Anderson, when the cost containment paradigm shifted from regulation to competition, the all-payor rate-setting system went out of favor. However, a review of the published literature and current information shows that all-payor rate-setting has been able to meet its multiple objectives. Those include cost containment, the reduction of cost shifting, greater access for the uninsured, and enhanced productivity. At the same time, it has not stifled the diffusion of competitive health care systems, new technology, or capital, and the impact on length of stay, admission, and quality of care is small if it exists at all.

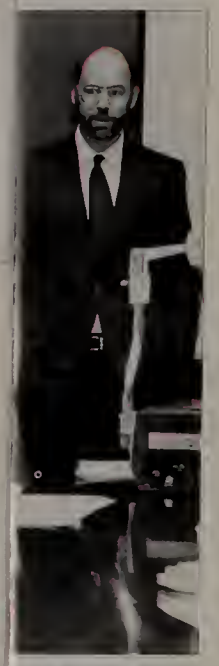
HEFA-sponsored health policy forums will continue this winter, when the health care contracting system in California -- a highly competitive state — will be examined. ■

Copies Available

Copies of the briefing materials for each of the forums are available by contacting Julie Fay at 617-737-8377.

Effect on Hospital Operations

CHART 2	RATIO Baltimore to Twin Cities 1971	1989
Expenditures Per Discharge	1.31	.91
Expenditures Per Day	1.22	.74
FTEs Per Bed	1.13	.97
Payroll Expenses Per FTE	1.03	.84



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of the total financing amount." HEFA has worked with GE to develop standard financing documents that streamline negotiations on contract terms, payment schedules, collateral and security.

"This is a very simple, expeditious and cost-effective way to access tax-exempt funds," Murphy stated. "The GE program fills a need for certain 501(c)(3) institutions. And it provides HEFA with an additional tool for its financing portfolio."

The first Massachusetts hospital to take advantage of this new tax-exempt financing program was Mercy Hospital, a 360-bed facility in Springfield, Massachusetts. In September 1991, Mercy acquired several new pieces of X-ray equipment and a significant upgrade for their computerized tomography system worth approximately $1.1 million.

Mercy officials had been looking at several other financing options before being approached with the GE program. However, other financing alternatives were not as cost-effective or timely as the GE program, which offers a fixed-rate bond and does not require additional credit enhancement.

"GE's fixed rates are attractive in the current low interest rate environment," commented Doug Stiles, Vice President of Finance at Mercy Hospital. "The hospital will save about $100,000 over the seven-year life of the financing by avoiding credit enhancement. In this era of rapidly increasing health care costs, this program enabled us to get the equipment we needed in the most fiscally responsible manner." ■

For information

For more information about the GE program or leasing, contact Martin Rainford at 617-737-8377.

cings: January 1991 through December 1991

Location	Series	Amount	Sale Date	Term
Dudley	B	$ 9,400,000	01/30/91	29 years, fixed
Cambridge	M	153,275,000	02/06/91	23 years, fixed
Lowell	A	17,610,000	03/27/91	20 years, fixed
Newton	D	40,000,000	04/10/91	24 years, fixed
Fall River	B	50,000,000	05/03/91	21 years, fixed
Boston	J,K,L	95,925,000	06/06/91	40 years, RIBS SAVRS
Waltham	H	12,995,000	07/24/91	29 years, fixed
Boston	J	36,760,000	07/25/91	29 years, fixed
Amherst	E	11,315,000	08/06/91	29 years, fixed
Boston	C	13,000,000	08/07/91	29 years, fixed
Boston	B	33,895,000	08/08/91	25 years, fixed
Boston	C	53,370,000	08/15/91	30 years, fixed
Winchester	C	8,550,000	08/15/91	19 years, fixed
Worcester	A	69,070,000	08/23/91	29 years, fixed
Cambridge	G	25,000,000	08/26/91	Variable
Boston	A	51,200,000	09/13/91	20 years, fixed
Boston	C,D,E	93,185,000	09/18/91	30 years, ARC LEVRS
Lawrence	B	10,885,000	09/19/91	10 years, fixed
Cambridge	N	141,820,000	09/20/91	29 years, fixed
Boston	D	150,000,000	09/25/91	33 years, fixed
Worcester	A	8,255,000	12/09/91	30 years, fixed
Worcester	E	23,745,000	12/11/91	17 years, fixed
Worcester	A	29,000,000	12/19/91	28 years, fixed
		$1,168,255,000		

Notre Dame Health Care Center Commences $8.3 Million Construction Project

At the closing of the Center's bond issue are, l-r: Lydia Crowson, Deputy Director, Mass. HEFA; Sister Mary Delaney of Notre Dame Health Care Center; Anne P. Ogilby, Esq., Ropes & Gray; and Jean M. DeLuca, Esq., Palmer & Dodge.

The Notre Dame Health Care Center, located in Worcester, will begin the construction of a 123-bed skilled nursing facility this winter. The facility, financed with an $8,255,000 bond sale, will be adjacent to and replace a fully occupied 51-bed skilled nursing facility. The Center is under the joint control of three religious associations know as Provinces of the Sisters of Notre Dame de Namur.

Corporations affiliated with the Provinces will jointly and severally guarantee payment of debt service on the bonds.

Kidder, Peabody & Co., Incorporated senior managed the limited public offering for the Center. Selling in excellent market conditions, the interest rates on the two term bonds maturing in 2001 and 2022 were 7.25% and 7.875%, respectively. The bonds were not rated. ■

Massachusetts Health and Educational
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WPI

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accessing short-term interest rates while at the same time limiting exposure to fluctuating markets.

In the WPI transaction, the swap was entered into for a six-year period with the ability to renegotiate the arrangement at any time during that six-year period. According to Robert W. Gailey, Vice President for Business Affairs and Treasurer at WPI, "Accessing the swap market was a real financial benefit to the Institute. Through the swap, the Institute receives the benefit of the currently low variable rates." He added, "Unlike traditional variable-rate debt which is callable at par, the swap can be reversed prior to maturity if the market changes so prescribe."

The bonds were rated A and A+ by Moody's and Standard & Poor's, respectively. Serial bonds (2001-2004) were priced to yield from 6.00% to 6.35%. Two term bonds (2011 and 2017) were priced to yield 6.819% and 6.875%. Goldman, Sachs and Co. senior-managed the transaction. ■

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